



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Pension Fund Fiscal Note 2011 Biennium

Bill #	HB0083	Title:	Professional retirement option for K-12 workforce
Primary Sponsor:	Dickenson, Sue	Status:	As Introduced

Retirement Systems Affected: ☒ Teachers ☐ Public Employees ☐ Highway Patrol ☐ Police
☐ Sheriffs ☐ Firefighters ☐ Volunteer Firefighters ☐ Game Wardens ☐ Judges

Check the box if "Yes".

- ☒ Has this legislation been reviewed by the legislative interim committee?
☒ Has the cost of this legislation been calculated by the system's actuary?
☐ Does this legislation include full funding for any benefit revisions?

This legislation does not include full actuarial funding.

	July 1, 2008 Current System	July 1, 2008 With Changes	Increase/ (Decrease)
Present Value of Actuarial Accrued Liability	\$3,953,700,000	\$4,153,800,000	\$200,100,000
Present Value of Actuarial Assets	\$3,159,100,000	\$3,159,100,000	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$794,600,000	\$994,700,000	\$200,100,000
Amortization Period (years) of UAAL	31.30	Unknown *	0.00

* See Technical Note

	July 1, 2008	July 1, 2009	July 1, 2010	July 1, 2011	July 1, 2012
Employee Contribution Rate	7.15%	7.15%	7.15%	7.15%	7.15%
Employer Contribution Rate	7.47%	7.47%	7.47%	7.47%	7.47%
State Contribution Rate	2.11%	2.49%	3.48%	4.47%	4.47%
TOTAL Contribution Rate	16.73%	17.11%	18.10%	19.09%	19.09%

NOTE: Pursuant to 19-20-605, MCA, the state contribution rate will increase 0.38% effective July 1, 2009. HB 83 will add an additional 0.99% increase to the state contribution rate on July 1, 2010, and a second increase of 0.99% on July 1, 2011

FISCAL SUMMARY

	FY 2010 Difference	FY 2011 Difference	FY 2012 Difference	FY 2013 Difference
Expenditures:				
General Fund	\$0	\$7,435,000	\$15,464,000	\$16,091,000
Other - Pension Trust	\$15,000	\$0	\$0	\$0
Revenue:				
General Fund	\$0	\$0	\$0	\$0
Other - Pension Trust	\$0	\$8,222,000	\$16,251,000	\$16,878,000
Net Impact-General Fund Balance:	<u>\$0</u>	<u>(\$7,435,000)</u>	<u>(\$15,464,000)</u>	<u>(\$16,091,000)</u>

Description of fiscal impact:

HB 83 will increase retirement benefits 20% for Montana's public school teachers and administrators providing an enhanced retirement benefit if they postpone termination and retirement until they are age 55 or older and have 30 or more years of creditable service in TRS.

FISCAL ANALYSIS

Assumptions:

1. Retirement benefits for members of the Teachers Retirement System (TRS) retiring on or after June 1, 2011 who are at least age 55, and have 30 or more years of creditable service, will be calculated using a formula of 2% per year of service instead of the current formula of: service divided by 60 (i.e., 1.6667% per year of service).
2. Actuarial costs are based on the assets and member data used in the July 1, 2008, actuarial valuation and assumed that this is the only statutory amendment being considered. If other provisions are enacted, the actuarial cost impact associated with this amendment may be different. No gains or losses from asset or liability experience after that July 1, 2008, are included.
3. The probabilities of retirement have been modified to reflect that members close to eligibility for the 2% formula are more likely to wait until they are eligible for the 2% formula to retire. Specifically, TRS has assumed that in the five years preceding eligibility for the 2% formula, members will only retire at 90%, 80%, 60%, 40% and 20% of the current valuation assumptions respectively.
4. It was necessary to make a number of assumptions to determine the cost associated with retired members returning and earning eligibility for the higher multiplier. TRS assumed 50% of the retirees who were 63 years of age or younger and had 28 or more years of service would return to active service and become eligible for this benefit enhancement. TRS assumed they would earn two years of service before they retired again, the minimum required to get the higher multiplier. TRS also assumed their earnings would increase with two years of the valuation salary assumption of 4.5%.
5. Impact on termination pay option one retirement: If a member retiring under the Teachers' Retirement System elects to include termination pay in the calculation of average final compensation, §19-20-716(1)(a), MCA, requires that the employee and their employer contribute to the TRS the actuarial cost of the benefit enhancement received. As a result of the enhanced multiplier required under this bill, the actuarial cost to include termination pay in the calculation of benefits if a member qualifies for the benefit

enhancement will increase by approximately 20%. (Termination pay includes any lump sum payment received on account of termination and retirement, e.g., unused sick and vacation leave and early retirement cash incentives.) 25% of this higher cost will be picked up by the state general fund.

6. The cost to modify the TRS pension administration IT system will not exceed \$15,000.

	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>
<u>Fiscal Impact:</u>				
<u>Expenditures:</u>				
Operating Expenses	\$15,000	\$0	\$0	\$0
Local Assistance	<u>\$0</u>	<u>\$7,435,000</u>	<u>\$15,464,000</u>	<u>\$16,091,000</u>
TOTAL Expenditures	<u><u>\$15,000</u></u>	<u><u>\$7,435,000</u></u>	<u><u>\$15,464,000</u></u>	<u><u>\$16,091,000</u></u>
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$7,435,000	\$15,464,000	\$16,091,000
Pension Trust (09)	<u>\$15,000</u>	<u>\$7,435,000</u>	<u>\$15,464,000</u>	<u>\$16,091,000</u>
TOTAL Funding of Exp.	<u><u>\$15,000</u></u>	<u><u>\$7,435,000</u></u>	<u><u>\$15,464,000</u></u>	<u><u>\$16,091,000</u></u>
<u>Revenues:</u>				
Pension Trust (09)	<u>\$0</u>	<u>\$8,222,000</u>	<u>\$16,251,000</u>	<u>\$16,878,000</u>
	<u><u>\$0</u></u>	<u><u>\$8,222,000</u></u>	<u><u>\$16,251,000</u></u>	<u><u>\$16,878,000</u></u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	0	(7,435,000)	(15,464,000)	(16,091,000)
Pension Trust (09)	(\$15,000)	8,222,000	16,251,000	16,878,000

Effect on Local Governments:

As a result of the enhanced multiplier required under this bill, the actuarial cost to include termination pay in the calculation of benefits will increase by approximately 20%. The anticipated cost to county levies from this bill is \$787,000 in FY 2010.

Technical Notes:

- This bill as introduced is over 40% short of the funding required to actuarially fund this proposal. Contributions rate increases of 1.4% in FY 2010 and FY 2011, for a total of 2.8% is required to fund the benefit enhancement.

Sponsor's Initials

Date

Budget Director's Initials

Date